
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION**

**MINUTES OF MEETING
AUGUST 17, 2005**

A meeting of the Board of Administration was held on Wednesday, August 17, 2005 at the Lincoln Plaza Auditorium, 400 P Street, Sacramento, California.

The meeting was called to order at 9:10 by Board President Rob Feckner.

The Secretary called the roll and the following Board members were present:

Rob Feckner, President
Robert Carlson, Vice President
Ron Alvarado
James Zerio representing Philip Angelides
Marjorie Berte
Willie Brown
George Diehr
Priya Sara Mathur
Debbie Endsley representing Michael Navarro
Michael Quevedo
Kurato Shimada
Charles Valdes
Nick Smith representing Steve Westly

AGENDA ITEM 2 – ANNOUNCEMENT OF CLOSED SESSION

Mr. Feckner announced that a closed session of the Board of Administration would be held at the close of the open session meeting.

AGENDA ITEM 3 – APPROVAL OF THE JUNE 15, 2005 MEETING MINUTES

ON MOTION by Mr. Valdes, **SECONDED** and **CARRIED**, the Board approved the minutes of the June 15, 2005 meeting. Ms. Berte ABSTAINED from voting.

AGENDA ITEM 4 – CHIEF INVESTMENT OFFICER'S/ASSISTANT EXECUTIVE OFFICER'S REPORT

Mr. Anson, Chief Investment Officer, presented this report to the Board. Since June 2004 the Federal Reserve has raised the short-term interest rate at each of its previous 10 meetings which means that the rate has gone from 1% to 3.5% as of today. There is high probability that the short-term interest rate will be at approximately 4.25% by the end of 2005.

The United States is still the key driver of economic growth around the world. That growth is adding to good profit margins for U.S. companies increasing to approximately 13.5%

year over year. Equities over bonds are still preferred in this scenario and careful monitoring of these interest rate increases will continue.

AGENDA ITEM 5 – INVESTMENT COMMITTEE

Mr. Valdes, Chair of the Investment Committee, presented this report to the Board. The Committee met on Monday, August 15 and considered a number of items. (Additional information may be found in the August 15, 2005 agenda materials and/or transcripts of the Investment Committee meeting.)

Agenda Item 6 – Real Estate

a. International Real Estate Investing in Commingled Funds

The Committee approved permission for staff to invest in international commingled funds which contain strategies to invest up to 25% of the Fund in countries not included on CalPERS' Permissible Equity Markets list. The selected investment funds will be subject to staff and CPA's satisfactory due diligence and negotiation of terms.

The Chair directed staff to monitor the due diligence process and inclusion of labor standards in that process, and to report back with any concerns.

Agenda Item 7 – Global Equity

a. International Equity RFP

The Committee approved issuance of a Request for Proposal (RFP) with a "Spring-Fed Pool" feature for (1) active international developed market managers and (2) active emerging market managers. The allocation of points for scoring purposes would be that the total points (not including points for fees) will be split evenly between the Committee and staff.

d. Corporate Governance Fund – Delegated Authority

The Committee approved delegation of authority to staff to invest up to \$200 million for individual investments in new Corporate Governance Active Strategies. The delegation is expressly conditioned upon the receipt of a favorable due diligence report from one of a pool of consultants and that the Chief Investment Officer participate in the selection of the consultant.

e. Permissible Equity Market Research Contracts

The Committee approved a one-year extension of the Oxford Analytica and Verite contracts.

Agenda Item 9 – Policy Subcommittee Report

By consent, the Committee approved the following:

a. Equity Policies

- 1) Adoption of Developmental Investment Fund
- 2) Revision of Equity Index Funds – Internally Managed
- 3) Adoption of Global Equity Sub-Asset Class Allocation Ranges

- 4) Adoption of Corporate Governance Fund Investment Vehicles – Externally Managed and Repeal of Hybrid and Hedge Fund Investment Vehicles – Externally Managed
- b. Fixed Income Policies
 - 1) Adoption of Currency Overlay Program
- c. Real Estate Policies
 - 1) Revision of Responsible Contractor Program
 - 2) Revision of Equity Real Estate
- d. Miscellaneous Investment Policies
 - 1) Revision of Asset Allocation Strategy
- e. Administrative
 - 1) Proposed September 2005 Agenda

Agenda Item 10 – Chief Investment Officer's/Assistant Executive Officer's Report

- a. Consolidated Investment Activity Report
The Committee accepted the Consolidated Investment Activity Report. The total market value of the Fund as of June 30, 2005 was approximately \$189.8 billion and the total book value was approximately \$147.7 billion.

The next meeting of the Committee is scheduled for September 19, 2005 in Sacramento, California.

AGENDA ITEM 6 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

Mr. Shimada, Chair of the Benefits and Program Administration Committee, presented this report to the Board. The Committee met on Tuesday, August 16 and considered a number of items. (Additional information may be found in the August 16, 2005 agenda materials and/or transcripts of the Benefits and Program Administration Committee meeting.)

Agenda Item 3 – Reimbursement to Employers of Elected Board Members

This item was put over to the September Benefits and Program Administration Committee meeting.

Agenda Item 4 – Legislation Update

Robert Walton, Assistant Executive Officer, Governmental Services, will provide a report on the legislative session at the September Board meeting.

Agenda Item 5 – Chief Actuary Report

Ron Seeling, Chief Actuary, had nothing to report at this time.

Agenda Item 6 – Assistant Executive Officer Report

Kathie Vaughn reported on the CalPERS 4th Quarter Effectiveness Measures and provided a summary of the Retirement Fairs that were held in May 2005.

Discussion followed regarding the workload in the Member and Benefit Services Branch along with the queue times in the Customer Contact Center.

Agenda Item 7 – Draft Agenda for September 20, 2005 Meeting

The following addition was made to the draft September agenda;

- Proposed Revisions to the Full Board Hearing Procedures – First Reading

The next meeting of the Committee is scheduled for September 20, 2005 in Sacramento, California.

AGENDA ITEM 7 – HEALTH BENEFITS COMMITTEE

Mr. Diehr, Chair of the Health Benefits Committee, presented this report to the Board. The Committee met on Tuesday, August 16 and considered a number of items. (Additional information may be found in the August 16, 2005 agenda materials and/or transcripts of the Health Benefits Committee meeting.)

Agenda Item 3 – Update on Partnership for Change: Promoting Value in Hospital Care

Terri Westbrook presented an update on the Partnership for Change: Promoting Value in Hospital Care. Staff will meet with the Greater Newport Physicians Medical Group on August 30th and with the CEO of Cedars-Sinai Medical Center on September 6th. A meeting with the Sutter Medical Group will be held in the near future. Endorsement letters were sent out in May and CalPERS has received a total of 18 endorsements of the Partnership for Change. A Purchasers' Conference will be held on September 21, 2005 at CalPERS to promote the new initiative on evaluating hospital quality.

Agenda Item 4 – 2005 Open Enrollment Timelines and Processes

Holly Fong discussed the upcoming open enrollment period which will run from September 15 through October 15, and the publications that will be distributed. The Quality Report will be presented to the Committee at the September meeting.

Agenda Item 5 – 2005 First Quarter Self-Funded Plans Financial Report

Richard Krolak presented the Self-Funded Plans 2005 First Quarter Financial Report. The first quarter produced results appropriate with expectations.

Agenda Item 6 – Update on Medicare Part D

Richard Krolak presented an update on Medicare Part D. CMS has announced an application deadline of September 30, 2005 for the Medicare Part D Retiree (employer) Drug Subsidy. CalPERS will request a 30-day extension. A draft letter was distributed to the Constituent Work Group for input on member communication regarding Medicare Part D. Staff will be revisiting all options for 2007.

Agenda Item 7 – Association Plans: Application for Medicare Part D Subsidy

Richard Krolak provided an update on the Medicare Part D Retiree (Employer) Subsidy as it relates to the Association Plans. Staff has determined that the State of California and not CalPERS is the sponsor of the CAHP and CCPOA Association Health Plans. CalPERS may only apply for the subsidy with respect to these plans as the agent of the State of California and not as the sponsor. CalPERS is, however, the sponsor of the PORAC Association Health Plan and will include it in its application as a sponsor for the Medicare Part D Retiree (Employer) Subsidy.

Agenda Item 8 – Assistant Executive Officer Report

Terri Westbrook provided an update on three items:

- **Rural Pilot Project in Humboldt County**
Staff will schedule a meeting with Martin Love, CEO of the Humboldt-Del Norte Independent Practice Association, Milt Dobkin, California Faculty Association, and Greger Vigen, Mercer Consulting, to determine next steps.
- **Request for Proposal for the Self-Funded Plans Pharmacy Benefit Manager**
Nine responses have been submitted, two will be disqualified due to incomplete information or lack of minimum qualifications.
- **CalPERS Health Wallet**
The CalPERS Health Wallet, part of our strategic member engagement effort, is a pilot project that is expected to be released during the 2005 open enrollment period.

Agenda Item 9 – Proposed Agenda for September 20, 2005 Health Benefits Committee Meeting

The proposed September 20, 2005 Health Benefits Committee Agenda was accepted by the Committee.

The next meeting of the Committee is scheduled for September 20, 2005 in Sacramento, California.

AGENDA ITEM 8 – FINANCE COMMITTEE

Mr. Carlson, Chair of the Finance Committee, presented this report to the Board. The Committee met on Friday, August 12 and considered a number of items. (Additional information may be found in the August 12, 2005 agenda materials and/or transcripts of the Finance Committee meeting.)

Agenda Item 3 – First Reading of CalPERS 2005 Strategic Plan Goals

Gloria Moore Andrews presented the first reading of the CalPERS 2005 Strategic Plan Goals. This reading resulted in discussion and suggestions by the Board members. The second reading of the CalPERS 2005 Strategic Plan Goals will be presented at the September Finance Committee meeting.

The Board approved, as a first reading, CalPERS 2005 Strategic Plan Goals with proposed modifications.

Agenda Item 4 – Proposed September 2005 Agenda

The Proposed September 2005 agenda was approved as presented.

The next meeting of the Committee is scheduled for September 16, 2005 in Sacramento, California.

AGENDA ITEM 9 – PERFORMANCE AND COMPENSATION COMMITTEE

Mr. Brown, Chair of the Performance and Compensation Committee, presented this report to the Board. The Committee met on August 12 and considered a number of items. (Additional information may be found in the August 12, 2005 agenda materials and/or transcripts of the Performance and Compensation Committee meeting.)

Agenda Item 3 – 2005-06 Performance Plan Measures for the Chief Executive Officer and Chief Actuary (First Reading)

The Board approved the first reading of the 2005-06 Performance Plans for the Chief Executive Officer and Chief Actuary.

Agenda Item 4 – 2005-06 Performance Plan Measures for the Chief Investment Officer and His Direct Reporting Staff (Senior Investment Officers) (Second Reading)

The Board approved the 2005-06 Performance Plans for the Chief Investment Officer and his direct reporting staff (Senior Investment Officers).

Agenda Item 5 – 2005-06 Performance Plan Measures for the Senior Portfolio Managers and Portfolio Managers (Second Reading) and the 2005-06 Performance Plan Measures for the Senior Portfolio Manager (Environmental Initiatives) (First Reading)

The Board approved the 2005-06 Performance Plans for the Senior Portfolio Managers and Portfolio Managers, excluding the 2005-06 Performance Plan Measure for Senior Portfolio Manager (Environmental Initiatives) (first reading).

Agenda Item 6 – Consideration of RFP for Executive Compensation Consultant Contract

The Board approved an amendment to the Scope of Services for an Executive Compensation Consultant RFP release to broaden the range of sources of salary survey data.

Agenda Item 7 – Proposed September 16, 2005 Agenda

The draft agenda for the September 2005 Committee meeting was reviewed and accepted.

The next meeting of the Committee is scheduled for September 16, 2005 in Sacramento, California.

AGENDA ITEM 10 – AD HOC BOARD GOVERNANCE COMMITTEE

Mr. Feckner, Chair of the Ad Hoc Board Governance Committee, presented this report to the Board. The Committee met on July 28 and August 15 and considered a number of items. (Additional information may be found in the July 28 and August 15, 2005 agenda materials and/or transcripts of the Ad Hoc Board Governance Committee meeting.)

Election of Chair and Vice-Chair

Rob Feckner was elected Chair by acclamation, and George Diehr was elected Vice-Chair by acclamation.

The Committee's Charge/Work Plan

The Committee is charged with reviewing the Board's internal governance procedures and recommending to the Board any changes or additions to existing policies.

At its first meeting, the Committee:

- Approved the general process for conducting its review of existing policies and procedures;
- Identified several key areas on which to focus their review; and
- Directed staff to prepare a written work plan and timeline for proceeding.

At the August 15, 2005 meeting, the Committee approved the work plan as modified.

The next meeting of the Committee is scheduled for September 19, 2005 immediately following the Investment Committee meeting in Sacramento, California.

AGENDA ITEM 11 – BOARD MEETING CALENDAR

Mr. Buenrostro, Chief Executive Officer, presented this item. Dates of note are:

September 16: R Street Subcommittee Meeting

October 17-19: Committee/Board meetings to be held in San Diego at the Holiday Inn on the Bay.

October 24-26: Employer Conference to be held in Monterey at the Hyatt Regency.

AGENDA ITEM 12 – CHIEF EXECUTIVE OFFICER'S REPORT

Mr. Buenrostro reported on the following activities:

- Provided an update on the Defined Benefit/Defined Contribution debate and noted the following presentations on this issue: NASRA, and the World Pension Forum Conference as well as educational forums for employers.
- Noted the work accomplished on CalPERS Strategic Plan at the Board/Executive Staff Offsite in Rohnert Park.

- Commented on the completion of the R Street Complex. Effective September 19th the street address for the entire complex – Lincoln Plaza North, East and West, will become 400 Q Street.
- Congratulated Allen Goldstein and Pat Chappie on their retirement.

AGENDA ITEM 13 – BOARD’S STATE LEGISLATIVE PROGRAM/BOARD’S POSITION ON STATE LEGISLATION

Robert Walton, Assistant Executive Officer, Governmental Services, presented this report to the Board.

Mr. Walton announced the selection of Lisa Marie Hammond as the new Chief of the Office of Governmental Affairs, effective September 1, 2005.

A. Status of State Legislation

Mr. Walton provided a status report on CalPERS’ package of bills which are moving through the process.

B. Reconsideration of Board Position – AB 1643

Mr. Walton commented that this bill deals with doing a study of CalPERS Long-Term Care Program on which the Board took an Oppose Unless Amended position at its last meeting.

ON MOTION by Mr. Valdes, **SECONDED** and **CARRIED**, the Board voted to reconsider its position of Oppose Unless Amended on AB 1643.

ON MOTION by Mr. Valdes, **SECONDED** and **CARRIED**, the Board adopted a Support if Amended position on AB 1643. Ms. Berte voted NO.

AGENDA ITEM 14 – BOARD’S FEDERAL LEGISLATIVE PROGRAM/BOARD’S POSITION ON FEDERAL LEGISLATION

In the absence of Mr. Lussier, CalPERS Federal Liaison, Mr. Walton provided a brief update on current Federal issues.

AGENDA ITEM 15 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

A request was made to withdraw item C, the matter of Damian E. Williams, for further discussion.

ON MOTION by Mr. Brown, **SECONDED** and **CARRIED**, the Board adopted staff’s recommendation for item 15A – the matter of Margarita F. Casul, and item 15B – the matter of Donnell Petetan.

ON MOTION by Mr. Diehr, **SECONDED** and **CARRIED**, the Board adopted the following resolution for item 15C – the matter of Damian E. Williams:

RESOLVED, that the Board of Administration of the California Public Employees’ Retirement System, after consideration of the Proposed Decision dated May 11, 2005 concerning the

application of Damian E. Williams, hereby determines to decide the matter itself; **RESOLVED FURTHER** that the Board's decision shall be made after notice is given to all parties, based upon the record produced before the administrative law judge and written and oral argument presented by the parties.

AGENDA ITEM 16 – PETITION FOR RECONSIDERATION:

- A. DAVID E. COFFEY**
- B. HUNTER COOK**

Item A – The Matter of David E. Coffee

ON MOTION by Mr. Diehr **SECONDED** and **CARRIED**, the Board adopted staff's recommendation to deny the Petition for Reconsideration of David E. Coffee

Item B – The Matter of Hunter Cook

Ms. Endsley, representing the Department of Personnel Administration, and Mr. Smith, representing the State Controller's Office, recused themselves from voting due to the fact that they both were contacted by a representative from one of the parties in Agenda Item 16B in the matter of the Petition for Reconsideration of the application for CalPERS' membership of Hunter T. Cook, respondent, and the Municipal Water District of Orange County. This conversation constituted a prohibited ex parte communication under Government Code 11430.10.

ON MOTION by Mr. Diehr, **SECONDED** and **CARRIED**, the Board adopted staff's recommendation to deny the Petition for Reconsideration of Hunter Cook.

AGENDA ITEM 17 – GENERAL COUNSEL'S REPORT

The Board accepted the Monthly New Case Reports and the Assignment Matrix as presented by Mr. Mixon, CalPERS General Counsel.

AGENDA ITEM 18 – BOARD TRAVEL APPROVALS

ON MOTION by Ms. Berte, **SECONDED** and **CARRIED**, the Board approved Item A. Mr. Zerio, representing the State Treasurer's Office, voted NO.

ON MOTION by Mr. Diehr, **SECONDED** and **CARRIED** the Board approved Item B. Mr. Zerio, representing the State Treasurer's Office, **ABSTAINED** from voting.

AGENDA ITEM 19 – DRAFT AGENDA FOR SEPTEMBER 21, 2005 MEETING

The Board accepted the draft agenda for the September 21, 2005 meeting as presented.

At this point in the proceedings, the Board recessed the open session meeting for the purpose of conducting a closed session meeting.

The open session of the Board was reconvened and the following was reported out:

Mr. Feckner, President of the Board of Administration, reported that the Board approved annual incentive awards and adjustments in base salaries for the Chief Actuary, Chief Investment Officer and Senior Investment Officers over Global Equities, Fixed Income, Real Estate, Alternative Investments, and Asset Allocation/Risk Management by a vote of 11 AYES, 0 NAYS and 1 ABSTENTION.

There being nothing further to come before the Board of Administration, the meeting adjourned at 11:00 a.m.

FRED BUENROSTRO
Chief Executive Officer